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SUBJECT: PROSPECTS FOR POWER SECTOR REMAIN DIM

REF: ABUJA 1376

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¶1. Summary: At an American Business Council (ABC) meeting on May 28, Chairman of the Nigerian Electricity Regulatory Commission (NERC), Ransome Owan, discussed plans for the Nigerian power sector. To an audience of professionals in the private sector, including stakeholders such as General Electric (GE) and AES Corporation, Owan explained the structure and function of NERC in a newly-privatized environment. Owan also highlighted opportunities for investment. In spite of the potential for growth, however, reliable gas supply remains the Achilles heel of the sector. Independent power projects owned by international oil companies were touted as one solution. Creating effective incentives for these has so far proven elusive. End summary.

¶2. At an American Business Council (ABC) meeting on May 28, Nigerian Electricity Regulatory Commission (NERC), Ransome Owan, discussed plans for the Nigerian power sector. To an audience of professionals in the private sector, including stakeholders in the power sector, such as General Electric (GE) and AES Corporation, Owan explained the structure and function of NERC in a newly-privatized environment. Owan also highlighted opportunities for investment.

Autonomy and Regulatory Stability

¶3. Owan showcased NERC as an autonomous body with a clear legal and organizational framework. NERC consists of six divisions, with seven commissioners in total. The commissioners are appointed by the President and confirmed by the Senate, and serve two-year term limits. Tenure is protected by due process removal. NERC is bound by the Electric Power Sector Reforms Act of May 2005 (ref) as well as private contracts, and has the ability to sue and be sued in the courts.

Market Development

¶4. Established in 2005, NERC's impetus is to oversee the transition to a competitive energy market. The privatization of the six generation companies and 12 distribution companies has yet to be completed, and Owan admits there is no targeted end date for this. The companies are the following:

Generation Companies

- Shiroro Hydroelectric
- Kainji Hydroelectric
- Sapele Thermal
- Egbin Thermal
- Afam Thermal
- Ughelli Thermal

Distribution Companies

- Abuja Electricity
- Jos Electricity
- Ibadan Electricity
- Benin Electricity
- Enugu Electricity
- Kaduna Electricity
- Kano Electricity
- Eko Electricity
- Ikeja Electricity
- Port Harcourt Electricity
- Yola Electricity

Transmission Company of Nigeria

- The sole transmission company will remain publicly-owned but privately managed.

¶5. Owan described the medium-term as characterized by protecting existing privatization and what he hoped would be a "fairly competitive" market. In order to progress to a more

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mature market, implementation of metering and information and communication technology (ICT) infrastructures would be crucial. Regulatory and legal frameworks, such as vesting contracts and an efficient settlement system are fundamental to developing investor confidence. Owan described these as the building blocks of a competitive and lucrative energy market.

¶6. Preconditions for the development of a medium-term market include NERC's finalizing and issuing directives for compliance with metering codes and standards; introducing guidelines regarding the use and installation of electric meters by distribution companies; and guidelines for appreciation and effective implementation of metering and ICT backbone to deal with funding, settlements, and exchange of power.

Creating Investor Confidence

¶7. Owan acknowledged that the conditions favorable to investment were legal protection; customer payment; an independent judiciary to settle disputes; clear exit rules for investors; and government and multilateral guarantees. He assured the audience that these were in place or were in the process of being implemented. Owan answered to the concerns enumerated as follows:

- legal protection can be found in the NERC's legal structure and in the 2005 Electricity Act;
- prepaid meters, implemented in some locations, ensure customer payment;
- the courts already serve as an efficient means of dispute resolution;
- there are no penalties for investment entry/exit;
- there are some existing government and World Bank guarantees. (Note: The Bank presently has two projects in the

power sector, focusing on transmission and distribution, totaling USD 272 million. End note.)

Widely-Touted Target Is Elusive

¶18. Owan admitted Nigeria would likely not reach 8,000 megawatts (MW) of power generation by end-2007, as widely proclaimed by the Government (Note: A statement by Special Advisor to the President on Power, Joseph Makoju, to poloffs in Abuja that Nigeria would miss its 10,000 MW by 2010 goal confirms this. End note). Numerous problems exist in each of the generation and distribution plants, as well as in substations and injection stations. Problems with decaying infrastructure would be addressed, in part, by generation and distribution companies as they built new lines connecting to the transmission company, said Owan. The bigger problem was maintaining gas supply to the generation companies. This was the Achilles heel of the power sector, Owan admitted, and he offered no remedy for this.

Timeline And Return On Investment Remain Unattractive

¶19. The timeline for collecting equity, seven to ten years, was a challenge for investment in the sector. Owan noted that, even where prepaid metering has been applied, 85% of the meters were being bypassed. Audience members said that metering had been successful only in planned, gated communities. In other areas, meters were tampered with and meter readers were routinely threatened or chased from the neighborhood. Availability of meters was also a problem, as there was a backlog for manufacturers. Owan expected it would take three years to see a marked improvement in capturing revenue.

¶10. In a presentation to the same audience on June 12,

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Special Advisor to the President on Power, Joseph Makoju, emphasized these problems. Non-technical loss of power, i.e., energy theft, was 40% from generation to billings in past years. (Note: The World Bank estimated in 2001 the energy sector lost 30-35% from generation to billings and had a collection rate of 75-80%. End note.) This loss of revenue was exacerbated by the fact that the last tariff review took place in February of 2002, suggesting government-set electricity tariffs did not reflect current market prices. Audience members acknowledged that the average Nigerian felt inexpensive access to power was a social good and should be subsidized by the government.

New Projects

¶11. Makoju said Nigeria was currently receiving assistance from the World Bank to assess its electricity stock and actual suppressed demand. These data would inform a 25-year plan for the power sector. Until now, the GON's production targets have been arbitrary. Many stakeholders argued that demand is much higher than has been estimated in recent years and the government's targets do not account for the increased demand necessary to power a growing economy.

¶12. Makoju emphasized the importance of investment in independent power projects (IPPs) by international oil companies. Such projects possessed advantages such as the availability and low cost of gas. The cost of gas for NNPC was much higher, according to Makoju, and NNPC was responsible for supplying gas to the National IPPs (NIPPs). IOCs could also locate their IPPs closer to the source of gas, reducing interruptions in supply.

Comment

[¶](#)13. Both stakeholders and observers agree that the potential for growth in the Nigerian power sector is enormous. While NERC may be statutorily positioned to steward a competitive power market, there will be little to regulate if gas cannot be supplied reliably to the country's power generation companies. End comment.
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